Chapter 21

Monitoring Jobs and Inflation

Employment and Unemployment

- Every month, Statistics Canada surveys 54,000 households to track the state of the nation's labour market.
- This survey is called the Labour Force Survey.
- The **working-age population** is the total number of people aged 15 years and over.
- The working-age population divides into two groups: those in the labour force and those not in the labour force.
- The **labour force** divides into two groups: the employed and the unemployed.
- A person is employed if they have either a full-time job or a part-time job.
- A person is unemployed if they are in one of the following categories:
    - Without work but has made specific efforts to find a job within the previous four weeks
    - Waiting to be called back to a job from which he or she has been laid off
    - Waiting to start a new job within four weeks

- Statistics Canada calculates four labour market indicators:
    - The unemployment rate
    - The involuntary part-time rate
    - The labour force participation rate
    - The employment-to-population ratio

- The **unemployment rate** is the percentage of the people in the labour force who are unemployed.
- Unemployment rate = (Number of people unemployed ÷ Labour force) × 100.

- The involuntary part-time rate is the percentage of people in the labour force who have part-time jobs and want full-time jobs.
- Involuntary part-time rate = (Number of involuntary part-time workers ÷ Labour force) X 100.

- The **labour force participation rate** is the percentage of the working-age population who are members of the labour force.
- Labour force participation rate = (Labour force ÷ Working-age population) × 100.

- The **employment-to-population ratio** is the percentage people of working age who have jobs.
- Employment-to-population ratio = (Number of people employed ÷ Working-age population) × 100.

- The labour force participation rate and the employment-to-population ratio show upward trends.
- The unemployment rate increases in recessions and decreases in expansions.

- The upward trends in the labour force participation rate and the employment-to-population ratio are accounted for mainly by the increasing participation of women in the labour market.

Unemployment and Full Employment

- Two types of labour are excluded from the official unemployment measure:
    - Marginally attached workers
    - Part-time workers who want full-time jobs

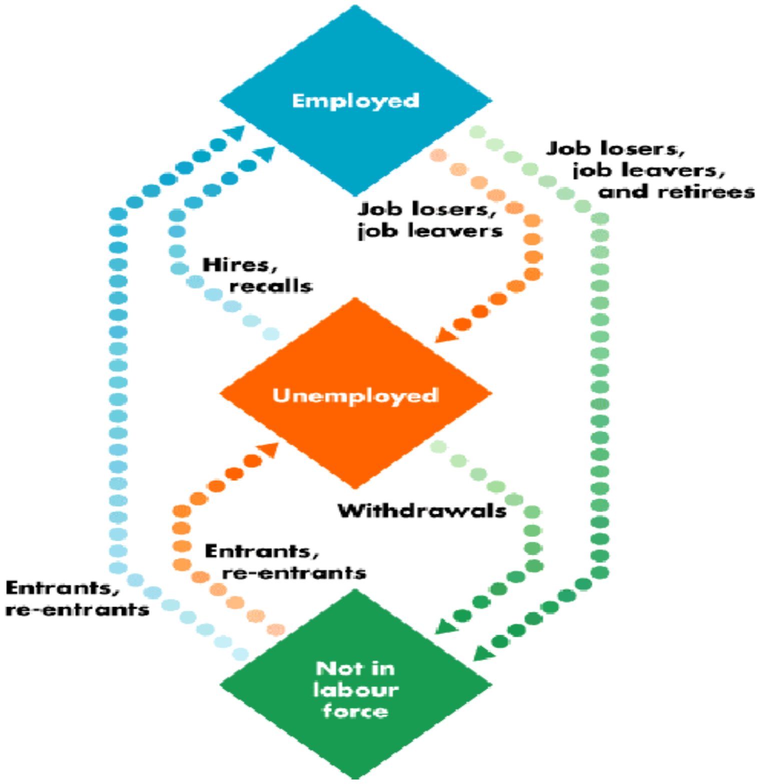
- A **marginally attached worker** is a person who currently is neither working nor looking for work but has indicated that he or she wants and is available for a job and has looked for work sometime in the recent past.

- A **discouraged worker** is a marginally attached worker who has stopped looking for a job because of repeated failure to find one.

- People become unemployed if they:
    - Lose their jobs and search for another job
    - Leave their jobs and search for another job
    - Enter or re-enter the labour force to search for a job

- People end a spell of unemployment if they:
    - Are hired or recalled
    - Withdraw from the labour force

- The figure below shows the labour market flows that create and end unemployment.



- People who are laid off from their jobs, either permanently or temporarily, are called **job losers**.
- People who voluntarily quit their jobs are called **job leavers**.
- People who enter or re-enter the labour force are called **entrants** and **re-entrants**.

- Most unemployment results from job loss.

- Job losers is the largest category of unemployment and the one that fluctuates most over the business cycle.

- Entrants and re-entrants also fluctuate with the business cycle.

- Unemployment is classified into four types:
  - Frictional
  - Structural
  - Seasonal
  - Cyclical

- **Frictional unemployment** is the unemployment that arises from normal labour market turnover.

- **Structural unemployment** is the unemployment that arises when changes in technology or international competition change the skills needed to perform jobs or change the locations of jobs.

- **Seasonal unemployment** is the unemployment that arises because the number of jobs available has decreased because of the season.

- **Cyclical unemployment** is the unemployment that fluctuates over the business cycle.

- **Full employment** occurs when there is no cyclical unemployment or, equivalently, when all the unemployment is frictional, structural, and seasonal.
- The unemployment rate at full employment is called the **natural rate of unemployment**.
- The quantity of real GDP at full employment is called **potential GDP**.

- Over the business cycle, real GDP fluctuates around potential GDP and the unemployment rate fluctuates around the natural rate of unemployment.

- When the economy is at full employment, the unemployment rate equals the natural rate of unemployment and real GDP equals potential GDP.
- When the unemployment rate is less than the natural rate of unemployment, real GDP is greater than potential GDP.
- And when the unemployment rate is greater than the natural rate of unemployment, real GDP is less than potential GDP.

The Price Level and Inflation

- The **Consumer Price Index (CPI)** is a measure of the average of the prices paid by urban consumers for a fixed “basket” of consumer goods and services.
- The CPI is defined to equal 100 for a period called the **base period**.
- Constructing the CPI involves three stages:
  - Selecting the CPI basket
  - Conducting the monthly price survey
  - Calculating the CPI

- The CPI calculation has three steps:
  - Find the cost of the CPI basket at base period prices
  - Find the cost of the CPI basket at current period prices
  - Calculate the CPI for the base period and the current period

- CPI = (Cost of CPI basket at current period prices ÷ Cost of CPI basket at base period prices) ÷ 100

- Study pp. 499-500 for an example of a CPI calculation.

- The **inflation rate** is the percentage change in the price level from one year to the next.
- Inflation rate = [(CPI this year – CPI last year) ÷ CPI last year] × 100

- When the price level rises rapidly, the inflation rate is high, and when the price level rises slowly, the inflation rate is low.

- The CPI is not a perfect measure of the price level, and changes in the CPI probably overstate the inflation rate.

- The main sources of bias in the CPI are:
  - New goods bias
  - Quality change bias
  - Commodity substitution bias
  - Outlet substitution bias

- The bias in the CPI has three main consequences. It
  - Distorts private contracts.
  - Increases government outlays.
  - Biases estimates of real earnings.

- Alternate price indexes include the GDP deflator and the chained price index for consumption.

- The **GDP deflator** is an index of the prices of all the items included in GDP and is the ratio of nominal GDP to real GDP.

- The **chained price index for consumption** is an index of the prices of all the items included in consumption expenditure in GDP and is the ratio of nominal consumption expenditure to real consumption expenditure.